

Agents and Surplus Lines

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Agents and Surplus Lines



Overview

- Introduction to surplus lines
- Who can buy it and when
- Who can sell it
- Filing requirements after purchase
- Review of Nonadmitted and Reinsurance Reform Act of 2010 (NRRA – part of Dodd-Frank)



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SLIDE 2

Surplus lines insurance

- Insurance other than reinsurance, annuities, life, health
- Provides coverage from nonadmitted insurer; coverage “not obtainable” from admitted insurers
- Purchased directly by the policyholder (self-procured) or through a surplus lines licensed producer



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Surplus lines insurers

- Not regulated by DIFP (regulation is through producers)
- Do not file rates or forms
- No consumer protection through guaranty fund



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SLIDE 4

Buying surplus lines insurance

- Policyholders directly: \$21 million in 2011
- Policyholders, through licensed producers: \$439 million in 2011



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SLIDE 5

Pre-purchase requirements

- Direct: none
- Producers: Pre-purchase requirements, unless policyholder is exempt commercial purchaser



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SLIDE 6

Pre-purchase requirements (producers)

Surplus lines licensee pre-purchase requirements:

- In general:
 - ▶ Each insurer is an eligible surplus lines insurer
 - ▶ Insurance is not obtainable from admitted insurers
- Exempt commercial purchaser: Not required to check if insurance is obtainable from admitted insurers



Eligible surplus lines insurers

- Financial requirements: Chapter 384 RSMo
- Maintain minimum capital, surplus: \$15 million
- Must be approved by DIFP or National Association of Insurance Commissioners (NAIC). As of July, 2011:
 - ▶ 131 insurance companies approved by DIFP.
 - ▶ 133 insurance companies approved by NAIC.



"Not obtainable"

Obtainable: coverage available (admitted market) that provides type of coverage and quality of security and service

- Type of coverage: perils covered and limits of coverage
- Quality of security and service: financial rating, i.e. A.M. Best



Surplus lines – licensed producers

Requirements:

- Property & casualty producer license
- Application & \$100 fee (biennially)
- Surplus lines exam (pre 1987 exempt)



Surplus lines – Missouri data

- Producers:
 - ▶ 2009 1,325
 - ▶ 2010 1,458
 - ▶ 2011 1,546
- Surplus lines tax paid:
 - ▶ 2009 \$21.8 million
 - ▶ 2010 \$21.8 million
 - ▶ 2011 \$22.9 million



Premium volume

- Gross premiums written:
 - ▶ 2009 \$452 million
 - ▶ 2010 \$440.7 million
 - ▶ 2011 \$468.6 million
- Taxable premiums written:
 - ▶ 2009 \$436.6 million
 - ▶ 2010 \$436.8 million
 - ▶ 2011 \$457.5 million



Producer requirements after sale

- Report policy placement to DIFP 45 days after end of quarter
- 5 percent tax on:
 - ▶ Net premium and
 - ▶ Fees charged to insured
- File tax report with DIFP March 1 for previous calendar year
- Tax due April 15th
- All filing electronic



Policyholder requirements (independent or self-procured)

- 5 percent tax on net premium
- File tax report with DIFP March 1 for previous calendar year (hard copy – available at insurance.mo.gov)
- Tax due April 15



NRRA (Nonadmitted and Reinsurance Reform Act)

- Part of Dodd-Frank Wall Street Reform and Consumer Protection Act
- Missouri adopted changes in 2011 to conform to NRRA
- Simplifies surplus lines requirements for policies with risks in multiple states



Review of NRRA

Definition of “home state” of insured:

1. State of insured’s principal place of business
2. State of insured’s principal residence (if individual)
3. State with highest portion of taxable premium for the policy (if risk is entirely outside 1 or 2, above)



Surplus Lines Requirements: Before and After NRRA

Producer license, obtainable test, eligible insurer test

- Before: Each state in which insured had a risk resident, located or to be performed
- After: Home state of insured



Surplus lines requirements: before and after NRRA

Premium tax payments (producer –sold and independently procured)

- Before: Allocate premium to and apply tax rate of each state
- After: Pay premium tax to home state of insured



Conclusion

- Surplus lines provides coverage not obtainable in admitted market
- Surplus lines producers regulated by DIFP, provide access to the surplus lines market
- Sophisticated insureds can directly buy surplus line insurance
- Dodd-Frank's home state rule simplifies requirements for all involved in surplus lines market

